

Partap Spintex Private Limited

April 25, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term / Short Term – Fund Based	88.36	88.36	[ICRA]BBB+ (Stable)/ [ICRA]A2; reaffirmed
Long Term / Short Term – Non-fund Based	1.64	1.64	[ICRA]BBB+ (Stable)/ [ICRA]A2; reaffirmed
Total	90.00	90.00	

*Instrument details are provided in Annexure-1

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of the various group entities, Partap Spintex Private Limited (PSPL), Rama Cotspin Private Limited (RCPL), Partap Cotex Private Limited (PCPL) and Nu-Chem Oils Pvt. Ltd. (Nu-chem) (as mentioned in Annexure-2 and together referred to as Partap Group) given the close business, financial and managerial linkages among them.

The ratings reaffirmation takes into account the established market position of the Partap Group (owned by Mr. Surinder Paul Bansal) in the denim fabric manufacturing industry with annual production capacity of ~70 million square meters per annum (MMPA), the established distribution network and the extensive industry experience of its promoters. The ratings take comfort from the Group's higher backward integration within the denim value chain which positions it better compared to its competitors and allows the company to better manage its cost structure. ICRA also notes the capex undertaken in past is eligible for various government incentive schemes which will support profitability going forward, However, the timely receipt of the funds would remain a key monitorable

The ratings are, however, constrained by the weaker than expected performance of the company in FY2018 as evident from the decline in profit margins and cash accruals. The profitability and cash accruals were lower than expectations, due to inability to adequately pass on the rise in cost and other fixed cost to customers due to stiff competition and prevalent overcapacity in the denim industry. The profitability reduction was also accompanied by deterioration in capital structure and debt protection metrics. The ratings are also constrained by the inherent cyclicity associated with the textile sector and vulnerability of profitability to fluctuations in the raw material prices (majorly cotton), moderate return indicators as well as working capital intensive nature of operations.

Outlook: Stable

ICRA believes that the Group will continue to benefit from the extensive experience of its promoters in the denim industry and oil extraction industry. The outlook may be revised to Positive if substantial growth in revenues and profitability and better working capital management strengthen the company's financial risk profile. Conversely, the outlook may be revised to Negative if the cash accrual is lower than expected, or if any major capital expenditure leads to further deterioration in capital structure of the company, or a stretched working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Established experience of promoters in textile industry and oil extraction business – Operational since 1991, the oil extraction business of the group – Nu-chem, has more than two-decade long track record in the sector. Further, the group ventured into textile industry in FY2006. The Group commenced its first spinning plant in Maur Mandi (Punjab) in FY2006 with plant capacity of 6500MTPA. Later, the group moved forward in the value chain and commenced its first denim plant at Mohra, Ambala in the year 2010 with installed capacity of 10MMPA. Gradually, the company expanded its denim manufacturing capacity to 72 MMPA as on date.

Benefits derived from large scale of operations, integrated operations; established relations with customers – The group has a well-established network of distributors in the domestic market and enjoys strong relationship with them and caters to some of the key denim processing clusters such as Delhi-NCR, Kolkata, Ahmedabad and Maharashtra. PSPL has been benefitting from its integrated operations with ~80-85% of denim yarn requirement being met through in-house spinning capacities (group companies). It has an integrated manufacturing unit comprising production facilities from spinning to fabric.

Profitability supported by fiscal incentives under the central and state textile policies – The Group's plant in Gujarat is eligible for Government subsidies wherein it gets 5% interest subsidy and power tariff subsidy of Re. 1 per unit under State Textile Policy. Apart from the interest and power subsidy, the project is also eligible for a capital subsidy under TUFF. All these fiscal incentives support the profitability and help in reducing the payback period of the project.

Credit challenges

Moderation in financial risk profile in FY2018 – On a consolidated basis, the group's operating profit margin declined to 6.99% in FY2018 from 8.77% in FY2017. Further, the RoCE of the Group moderated to 12.97% in FY2018 from 19.75% in FY2017. With moderation in profitability and increased debt level, the gearing and debt coverage ratios moderated as well in FY2018.

Profits remain susceptible to raw material price fluctuations – PSPL manufactures cotton denim fabric where cotton constitutes ~55% of the total cost of production. Hence, the group is exposed to the fluctuation in the prices of cotton lint owing to various reasons such as agro-climatic, and government policies (through minimum support price). The fluctuation in the prices of cotton has affected the operating profit margins of the company in the past.

Exposed to volatility in consumer demand – The ratings are constrained by the inherent cyclicity associated with the textile sector and the prevalent over capacity in the domestic denim industry.

Liquidity position

Cash flow from operations continues to remain positive, while the free cash flows continued to remain negative in FY2018 due to capex. The company's limit utilization remained high with average utilization of 85-90%. ICRA expects the company's liquidity to remain moderate, given the absence of capacity expansion plans and scheduled term debt repayments.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Financial Consolidation and Rating Approach Rating Methodology for Entities in the Indian Textiles Industry –Fabric Making Rating Methodology for Entities in the Textiles Industry–Spinning Rating Methodology for Entities in the Solvent Extraction (Edible Oil) Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of Partap Spintex Private Limited, Rama Cotspin Private Limited, Partap Cotex Private Limited and Nu-Chem Oils Pvt. Ltd given the close business, financial and managerial linkages among them.

About the company

PSPL is a part of Partap Group, incorporated in 1989 to undertake the edible oil processing activities. Later in the year 2006, PSPL entered into the textile industry with its first spinning unit in Maur Mandi (Punjab). Further, PSPL has undertaken a step towards forward integration in the supply-chain and commenced a denim fabric manufacturing unit in Mohra, Ambala (Haryana) in the year 2010. The company is utilizing almost 85-90% of its spinning capacity for its captive consumption. In the past few years, PSPL has expanded its denim manufacturing capacity to 70 MMPA. The company's denim plants are located at Mohra, Ambala (Haryana) and Dholka, Ahmedabad (Gujarat) while its spinning plant is situated at Maur Mandi (Punjab). Apart from this, the group has spinning facilities in Ambala (Haryana) under its group entity, RCPL and in Dholka, Ahmedabad under the group entity, PCPL catering to the denim yarn requirement of PSPL.

On a standalone basis, PSPL reported a net profit of Rs. 6.66 crore on an operating income (OI) of Rs. 472.08 crore in FY2018 compared with a net profit of Rs. 14.15 crore on an OI of Rs. 350.17 crore in the previous year.

On a consolidated basis, Partap Group reported a net profit of Rs. 10.88 crore on an OI of Rs. 703.55 crore in FY2018 compared with a net profit of Rs. 19.03 crore on an OI of Rs. 591.33 crore in the previous year.

Key financial indicators (audited) - PSPL

	FY2017	FY2018
Operating Income (Rs. crore)	350.17	472.08
PAT (Rs. crore)	14.15	6.66
OPBDIT/OI (%)	12.02%	7.66%
RoCE (%)	19.38%	10.68%
Total Debt/TNW (times)	1.03	1.31
Total Debt/OPBDIT (times)	1.92	3.08
Interest Coverage (times)	5.18	4.90

Source: PSPL's financials and ICRA research

Key financial indicators (audited) - Consolidated

	FY2017	FY2018
Operating Income (Rs. crore)	591.33	703.55
PAT (Rs. crore)	19.03	10.88
OPBDIT/OI (%)	8.77%	6.99%
RoCE (%)	19.75%	12.97%
Total Debt/TNW (times)	1.10	1.49
Total Debt/OPBDIT (times)	2.04	3.33
Interest Coverage (times)	4.77	4.59

Source: PSPL, RCPL, PCPL and Nu-chem's financials and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2020 April 2019	Date & Rating in FY2019	Date & Rating in FY2018 January 2018	Date & Rating in FY2017
Instrument								
1	Fund Based	Long Term/Short Term	88.36		[ICRA]BBB+ (Stable)/[ICRA]A2	-	[ICRA]BBB+ (Stable)/[ICRA]A2	-
2	Non-fund Based	Long Term/Short Term	1.64		[ICRA]BBB+ (Stable)/[ICRA]A2	-	[ICRA]BBB+ (Stable)/[ICRA]A2	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based	-	-	-	88.36	[ICRA]BBB+ (Stable)/ [ICRA]A2
NA	Non-fund Based	-	-	-	1.64	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: PSPL

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